Answers

1 (a) Cost of control in Staybrite:

	$000		$000
Consideration			
Shares (10,000 x 75% x 2/3 x $6)			30,000
8% loan notes (10,000 x 75% x $100/250)			3,000
			33,000
Less			
Equity shares	10,000		
Share premium	4,000		
Pre acq reserves (see below)	12,000		
Fair value adjustment (5,000 + 3,000)	8,000		
	34,000	x 75%	(25,500)
Goodwill			7,500

The pre acquisition reserves are:

At 1 October 2003	7,500
To 1 April 2004 (9,000 x 6/12)	4,500
	12,000

Goodwill on the purchase of Allbrite:

	$000		$000
Consideration			
Shares (5,000 x 40% x 3/4 x $6)			9,000
Cash (5,000 x 40% x $1)			2,000
			11,000
Less			
Equity shares	5,000		
Share premium	2,000		
Pre acq reserves (6,000 + (4,000 x 6/12))	8,000		
	15,000	x 40%	(6,000)
Goodwill			5,000

(b) Holdrite Group
Consolidated income statement for the year ended 30 September 2004

	$000	$000
Revenue (75,000 + (40,700 x 6/12) – 10,000)		85,350
Cost of sales (w (i))		(48,750)
Gross profit		36,600
Operating expenses (w (ii))		(15,730)
Profit from operations		20,870
Income from associate (w (iii))		1,200
		22,070
Interest expense		(170)
Profit before tax		21,900
Income tax expense – Group (4,800 + (3,000 x 6/12))	(6,300)	
– Associate (w (iii))	(400)	(6,700)
Profit for the period		15,200
Attributable to:		
Equity holders of the parent		14,200
Minority interest (w (iv))		1,000
		15,200

		$000
(c)	Net profit for period	14,200
	Dividend paid	(5,000)
		9,200
	Retained profit b/f (Holdrite only)	18,000
	Retained profits c/f	27,200

Workings ($000)

		$000
(i)	Cost of sales	
	Holdrite	47,400
	Staybrite (19,700 x 6/12)	9,850
	Additional depreciation of plant	500
	Intra group purchases	(10,000)
	Unrealised profit in inventory (4,000 x 25%)	1,000
		48,750
(ii)	Operating expenses	
	Holdrite	10,480
	Staybrite (9,000 x 6/12)	4,500
	Impairment of Staybrite's goodwill	750
		15,730
(iii)	Associated company	
	Profit for the year (6,000 x 6/12 x 40%)	1,200
	Taxation (2,000 x 6/12 x 40%)	400
(iv)	Minority Interest	
	9,000 x 6/12	4,500
	less additional depreciation	(500)
		4,000
	x 25%	1,000

2 (a) Chamberlain – Income statement – Year to 30 September 2004

	$000
Revenue (246,500 + 50,000 (w (i)))	296,500
Cost of sales (w (ii))	(146,500)
Gross profit	150,000
Operating expenses	(29,000)
Profit before interest and tax	121,000
Investment income (w (iii))	4,000
Interest expense (1,500 + 1,500 accrued)	(3,000)
Profit before tax	122,000
Income tax (22,000 – (17,500 – 14,000))	(18,500)
Profit for the period	103,500

(b) Chamberlain – Balance Sheet as at 30 September 2004

	$000	$000
Non-current assets		
Property, plant and equipment (w (iv))		407,000
Development costs (40,000 – 25,000)		15,000
		422,000
Current assets		
Inventory	38,500	
Amounts due from construction contracts (w (i))	25,000	
Trade receivables	48,000	
Net investment in finance lease – Note 1 (w (iii))	40,000	
Accrued finance lease income (w (iii))	4,000	
Bank	12,500	168,000
Total assets		590,000
Equity and liabilities		
Capital and reserves:		
Ordinary share capital		200,000
Retained profits – 1 October 2003	162,000	
– Year to 30 September 2004	103,500	
less dividends paid	(8,000)	257,500
		457,500
Non-current liabilities (w (v))		64,000
Current liabilities		
Trade payables	45,000	
Accrued finance costs	1,500	
Taxation	22,000	68,500
Total equity and liabilities		590,000
Note 1		
Net investment in finance lease:		
Amount receivable within one year		12,000
Amount receivable after more than one year		28,000
		40,000

Workings (all figures in $000)		$000
(i)	Construction contract:	
	Contract price	125,000
	Estimated cost	(75,000)
	Estimated total profit	50,000
	Contract cost for year (35,000 – 5,000 inventory on site)	30,000
	Estimated cost	75,000
	Percentage complete (30,000/75,000)	40%
	Year to 30 September 2004	
	Contract revenue – included in sales (125,000 x 40%)	50,000
	Contract costs – included in cost of sales (35,000 – 5,000)	(30,000)
	Amounts due from customers:	
	Cost to date plus profit taken (35,000 + 20,000)	55,000
	Less progress billings received	(30,000)
		25,000
(ii)	Cost of sales:	
	Opening inventory	35,500
	Purchases	78,500
	Contract costs (w (i))	30,000
	Research costs	25,000
	Depreciation (w (iv)) – buildings	6,000
	– plant	10,000
	Closing inventory	(38,500)
		146,500
(iii)	Finance lease:	
	Net investment at inception of lease	56,000
	First rental payment – 1 October 2003	(16,000)
	Investment outstanding to 30 September 2004	40,000
	Accrued interest 10% (current asset)	4,000

In the year to 30 September 2005 the second rental payment of $16,000 will be received, of this $4000 is for the accrued interest for the previous year, thus $12,000 will be a capital receipt. Therefore the analysis of the investment outstanding at 30 September 2004 of $40,000 is that $12,000 will be receivable within one year and $28,000 after more than one year.

(iv) Non-current assets/depreciation:

Buildings:

A cost of $240,000 (403,000 – 163,000 for the land) over a 40 year life gives annual depreciation of $6,000 per annum.

This gives accumulated depreciation at 30 September 2004 of $66,000 (60,000 + 6,000) and a net book value of $337,000 (403,000 – 66,000).

Plant:

The carrying value prior to the current year's depreciation is $80,000 (124,000 – 44,000). Depreciation at 12·5% on the reducing balance basis gives an annual charge of $10,000. This gives a carrying value at 30 September 2004 of $70,000 (80,000 – 10,000). Therefore the carrying value of property, plant and equipment at 30 September 2004 is $407,000 (337,000 + 70,000).

(v) Non-current liabilities

6% loan note	50,000
Deferred tax	14,000
	64,000

3 Note: The International Accounting Standards Board (IASB) has decided that their standards will be called International Financial Reporting Standards (IFRS), and that this term should be taken to encompass both Standards and Interpretations issued by the IASB (IFRS and IFRIC), and the International Accounting Standards (IAS) and Standing Interpretations Committee Interpretations (SIC) issued by its predecessor standard setter, the IASC Board. References in this answer to IFRS should be taken to have the same meaning as that used by the IASB.

(a) In recognition of the increasing importance of international accounting standards, in 1999 the Board of the IASB recommended and subsequently adopted a new constitution and structure. After a two year process a new supervisory body, The International Accounting Standards Committee Foundation, was incorporated in the USA in February 2001 as an independent not-for-profit organisation. It is governed by 19 IASC Foundation Trustees who must have an understanding of international issues relevant to accounting standards for use in the world's capital markets. The main objectives of the IASC Foundation are:

to develop a single set of global accounting standards that require high quality, transparent and comparable information in financial statements to help users in making economic decisions;

to promote the use and application of these standards; and

to bring about convergence of national accounting standards and international accounting standards

The subsidiary bodies of the IASC Foundation are the International Accounting Standards Board (IASB) (based in London UK), the Standards Advisory Council (SAC) and the International Financial Reporting Interpretations Committee (IFRIC).

The International Accounting Standards Board
The result of a restructuring process saw the IASB assume the responsibility for setting accounting standards from its predecessor body, the International Accounting Standards Committee. The Trustees appoint the members of all of the above bodies. They also set the agenda of and raise finance for the IASB; however the IASB has sole responsibility for setting accounting standards, International Financial Reporting Standards (IFRS), following rigorous and open due process.

The Standards Advisory Council provides a forum for experts from different countries and different business sectors with an interest in international financial reporting to offer advice when drawing up new standards. Its main objectives are to give advice to the Trustees and IASB on agenda decisions and work priorities and on the major standard-setting projects.

The **International Financial Reporting Interpretations Committee** has taken over the work of the previous Standing Interpretations Committee. It is really a compliance body whose role is to provide rapid guidance on the application and interpretation of international accounting standards where contentious or divergent interpretations of international accounting standards have arisen. It operates an open due process in accordance with its approved procedures. Its pronouncements (interpretations – SICs and IFRICs) are important because financial statements cannot be described as complying with IFRSs unless they also comply with the interpretations.

Other Bodies
The prominence of the IASB has been enhanced even further by its relationship with the **International Organisation of Securities Commissions (IOSCO)**. IOSCO is an influential organisation of the world's security commissions (stock exchanges). In 1995 the IASC agreed to develop a core set of standards which, when endorsed by IOSCO, would be used as an acceptable basis for cross-border listings. In May 2000 this was achieved. Thus it can be said that international accounting standards may be the first tentative steps towards global accounting harmonisation. As part of its harmonisation process the **European Union** will require listed companies in all member states to prepare their financial statements using IFRSs by 2005.

National standard setters such as the UK's Accounting Standards Committee and the USA's Financial Accounting Standards Board have a role to play in the formulation of international accounting standards. Seven of the leading national standard setters are members of the IASB. The IASB see this as a 'partnership' between IASB and these national bodies as they work together to achieve the convergence of accounting standards world wide. Often the IASB will ask members of national standard setting bodies to work on particular projects in which those countries have greater experience or expertise. Many countries that are committed to closer integration with IFRSs will publish domestic standards equivalent (sometimes identical) to IFRSs on a concurrent timetable.

(b) The International Accounting Standard Setting Process
As referred to above the IASB is ultimately responsible for setting international accounting standards. The Board (advised by the SAC) identifies a subject and appoints an Advisory Committee to advise on the issues relevant to the given topic. Depending on the complexity and importance of the subject matter the IASB may develop and publish Discussion Documents for public comment. Following the receipt and review of comments the IASB then develops and publishes an Exposure Draft for public comment. The usual comment period for both of these is ninety days. Finally, and again after a review of any further comments, an International Financial Reporting Standard (IFRS) is issued. The IASB also publishes a Basis for Conclusions which explains how it reached its conclusions and gives information to help users to apply the Standard in practice. In addition to the above the IASB will sometimes conduct Public Hearings where proposed standards are openly discussed and occasionally Field Tests are conducted to ensure that proposals are practical and workable around the world.

The authority of international accounting standards is a rather difficult area. The IASB has no power to enforce international accounting standards within those countries/enterprises that choose to adopt them. This means that the enforcement of international accounting standards is in the hands of the regulatory systems of the individual adopting countries. There is no doubt the regulatory systems in different parts of the world differ from each other considerably in their effectiveness. For example in the UK the Financial Reporting Review Panel (FRRP) is a body that investigates departures from the UK's regulatory system (which will soon include the use of international accounting standards for listed companies). The FRRP has wide and effective powers of enforcement, but not all countries have equivalent bodies, thus it can be argued that international

accounting standards are not enforced in a consistent manner throughout the world. Complementary to international accounting standards, there also exist international auditing standards and part of the rigour and transparency that the use of international accounting standards brings is due to the fact that those companies adopting international accounting standards should also be audited in accordance with international auditing standards. This auditing aspect is part of IOSCO's requirements for financial statements to be used for cross-border listing purposes.

Where it becomes apparent (often through press reports) that there is widespread inconsistency in the interpretation of an international accounting standard, or where it is perceived that a standard is not clear enough in a particular area, the IFRIC may act to remedy/clarify the position thus supplementing the body of international standards. However where it becomes apparent (perhaps through a modified audit report) that a company has departed from IFRSs there is little that the IASB can do directly to enforce them.

(c) The success of the process

Any measure of success is really a matter of opinion. There is no doubt that the growing acceptance of IFRSs through IOSCO's endorsement, the European Union requirement for their use by listed companies and the ever increasing number of countries that are either adopting international accounting standards outright or basing their domestic standards very closely on IFRSs is a measure of the success of the IASB. Equally there is widespread recognition that in recent years the quality of international accounting standards has improved enormously due to the improvements project and subsequent continuing improvements. However the IASB is not without criticism. Some countries that have developed sophisticated regulatory systems feel that IFRSs are not as rigorous as the local standards and this may give cross-border listing companies an advantage over domestic companies. Some requirements of international accounting standards are regarded as quite controversial, e.g. deferred tax (part of IAS 12), financial instruments and derivatives (IAS 32 and 39) and accounting for retirement benefits (IAS 26). Many IFRSs are complex and the benefits of applying them to smaller enterprises may be outweighed by the costs. Also some securities exchanges that are part of IOSCO require non-domestic companies that are listing by filing financial statements prepared under IFRSs to produce a reconciliation to local GAAP. This involves reconciling the IFRS income statement and balance sheet assets, liabilities and equity, to what they would be if local GAAP had been used. The USA is an important example of this requirement. Critics argue that this requirement negates many of the benefits of being able to use a single set of financial statements to list on different security exchanges. This is because to produce reconciliation to local GAAP is almost as much work and expense as preparing financial statements in the local GAAP which was usually the previous requirement.

Despite these criticisms there is no doubt that the work of IASB has already led, and in the future will lead, to further improvement in financial reporting throughout the world.

4 (a) Bigwood – Cash Flow Statement for the year to 30 September 2004:

Note: figures in brackets are in $000	**$000**	**$000**
Net profit before tax		700
Adjustments for:		
depreciation – non-current assets (w (i))	3,800	
loss on disposal of fixtures (w (i))	1,250	
interest expense	300	5,350
Operating profit before working capital changes		6,050
increase in inventory (2,900 – 1,500)		(1,400)
increase in trade receivables (100 – 50)		(50)
increase in trade payables (3,100 – 2,150)		950
Cash generated from operations		5,550
Interest paid		(300)
Income tax paid (w (ii))		(480)
Net cash from operating activities		4,770
Cash flow from investing activities		
Purchase of Property, plant and equipment (w (i))	(10,500)	
Disposal costs of fixtures (w (i))	(50)	(10,550)
		(5,780)
Cash flows from financing activities		
Issue of ordinary shares (2,000 + 1,000)	3,000	
Long term loans (3,000 – 1,000)	2,000	
Equity dividend paid	(600)	4,400
Net decrease in cash and cash equivalents		(1,380)
Cash and cash equivalents at beginning of period		450
Cash and cash equivalents at end of period		(930)

Workings (all figures in $000)

(i)	Property, plant and equipment – cost	
	Balance b/f	9,500
	Disposal	(3,000)
	Balance c/f	(17,000)
	Difference cash purchase	(10,500)
	Depreciation	
	Balance b/f	(3,000)
	Disposal (3,000 – 1,200)	1,800
	Balance c/f	5,000
	Difference charge for year	3,800
	Disposal	
	Cost	3,000
	Depreciation	(1,800)
	Net book value	1,200
	Cost of disposal	50
	Total loss on disposal	(1,250)
(ii)	Income tax paid:	
	Provision b/f	(450)
	Income statement tax charge	(250)
	Provision c/f	220
	Difference cash paid	(480)

(b) Report on the financial performance of Bigwood for the year ended 30 September 2004

To:
From:
Date:

Operating performance:
Bigwood's overall performance as measured by the return on capital employed has deteriorated markedly. This ratio is effectively a composite of the company's profit margins and its asset utilisation. The expansion represented by the acquisition of the five new stores has considerably increased investment in net assets. The asset turnover (a measure of asset utilisation) has fallen from 3·3 times to just 2·1 times. This is a relatively large fall and is partly responsible for the deteriorating performance. However, it should be borne in mind that it often takes some time before new investment generates the same level of sales as existing capacity so it may be that the situation will improve in future years.

Of more concern in the current year is the deteriorating gross profit margin of the company's clothing sales. This has fallen from 18·6% to 9·4%. The effect of this is all the more marked because sales of clothing (in the current year) represents nearly 70% of turnover. It should also be noted that the inventory holding period of clothing has also increased significantly from 39 days in 2003 to 68 days in the current year. This may be a reflection of a company policy to increase inventory levels in order to attract more sales, but it may also be an indication that there is some slow-moving or obsolete inventory. The clothing industry is notoriously susceptible to fashion changes, the new designs may not have gone down well with the buying public. By contrast the profit margin on food sales has increased substantially (from 25% to 32·1%) as indeed have the sales themselves (up 75% on last year). These improvements have helped to offset the weaker performance of clothing sales.

A more detailed analysis shown by the ratios in the appendix confirms the position. The expansion has created a 35% increase in the sales floor area, but the proportionate increase in turnover is only 17·3%. Breaking this down between the two sectors shows that the clothing sector is responsible for this deterioration; an increase in capacity of 37% has led to an increase in sales of only 2·6%, whereas a more modest increase of 20% in the food floor area has led to a remarkable increase of 75% in food sales. In the current year food retailing has generated sales of $1,167,000 per square metre, whereas clothing sales per square metre has fallen from $446,000 to $333,000. When the relative profit margins of clothing and food are considered it can be seen that food retailing has been far more profitable than clothing retailing and this gap in margins has increased during the current year.

This deterioration in trading margins has continued through to net profit margins (falling from 7·1% to only 2·0%). It can be observed that operating expenses have increased considerably, but this is to be expected and is probably in line with the increase in the number of stores.

In summary, the increase in capacity has focused on clothing rather than food retailing. On reflection this seems misguided as the performance of food retailing was superior to that of clothing (in 2003) and this has continued (even more so) during the current year.

Liquidity/solvency

The increase in the investment in new stores and the refurbishment of existing stores has been largely financed by increasing long term loans by $2 million and issuing $3 million of equity. The effect of this is an increase in gearing from 17% to 28%. Although the level of gearing is still modest, the interest cover has fallen from a very healthy 25 times to a worrying low 3·3 times. The investment has also taken its toll on the bank balance falling from $450,000 in hand to an overdraft of $930,000. This probably explains why the company has stretched its payment of accounts payable to 59 days in 2004 from 50 days in 2003.

The company's current liquidity position has deteriorated slightly from 0·77 : 1 to 0·71 : 1. No quick ratios have been given, nor would they be useful. Liquidity ratios are difficult to assess for retailing companies. Most of the sales generated by such companies are for cash (thus there will be few trade receivables) and normal liquidity benchmarks are not appropriate. The cash flow statement reveals cash flows generated from operating activities of $5,550,000. This is a far more reliable indicator of the company's liquidity position. The $5,550,000 is more than adequate to service the tax and the dividend payments. Indeed the operating cash flows have contributed significantly to the financing of the expansion programme.

Share price and dividends:

Bigwood's share price has halved from $6·00 to $3·00 during the current year. The dilution effect of the share issue at $1·50 per share (2 million shares for $3million) would account for some of this fall (to approximately $4·20), but the further fall probably represents the market's expectations of the company's performance. It is worth noting that the company has maintained its dividends at $600,000 despite an after tax profit of only $450,000. Whilst this dividend policy cannot be maintained indefinitely (at the current level of profits), the directors may be trying to convey to the market a feeling of confidence in the future profitability of the company. It may also be a reaction designed to support the share price. It should also be noted that although the total dividend has been maintained, the dividend per share will have decreased due to the share issue during the year.

Summary

The above analysis of performance seems to give mixed messages, the company has invested heavily in new and upgraded stores, but operating performance has deteriorated and the expansion may have been mis-focused. This appears to have affected the share price adversely. Alternatively, it may be that the expansion will take a little time to bear fruit and the deterioration may be a reflection of the current state of the economy. Cash generation remains sound and if this continues, the poor current liquidity position will soon be reversed.

Signed A N Other

Appendix

The following additional ratios can be calculated:

	clothing		food		overall	
Increase in sales area	(13,000/35,000)	37%	(1,000/5,000)	20%	(14,000/40,000)	35%
Increase in turnover	(400/15,600)	2·6%	(3,000/4,000)	75%	(3,400/19,600)	17·3%

	sales per sq mtr 2004 $000		sales per sq mtr 2003 $000	
Overall	(23,000/54)	426	(19,600/40)	490
Clothing	(16,000/48)	333	(15,600/35)	446
Food	(7,000/6)	1,167	(4,000/5)	800

5 (a) (i) Derwent share capital and reserves at 30 September 2004:

	$000	$000
95 million ordinary shares of 25c each fully paid ((100 million – 5 million) x 25c)		23,750
One million 5% preference shares of $1 each		1,000
Capital reserve (w (ii))	250	
Retained profits (w (ii))	51,600	51,850
		76,600

Dividends – year to 30 September 2004		
Preference dividend ($1 million x 5%)		50
Ordinary dividends		
January 2004 ((100 million – 5 million) x 3c)	2,850	
June 2004 (95 million x 5c)	4,750	7,600

Workings

(i) The premium on redemption is $7·5 million (5 million x (175c – 25c)) and this must be charged to accumulated profits.

(ii)

	$000	$000
Retained profits b/f		55,000
profit after tax for the year (from question)	12,000	
preference dividend (from above)	(50)	
ordinary dividends (from above)	(7,600)	
premium on redemption (w (i))	(7,500)	
transfer to capital reserve (see below)	(250)	(3,400)
		51,600

The transfer to the capital reserve is the nominal value of share capital redeemed of $1·25 million (5 million x 25c) less the proceeds of the new issue of $1 million.

(ii) Advantages of purchasing (then cancelling) own shares:
- it is a method of returning excess cash/capital surpluses to shareholders (without paying dividends)
- if a company believes its shares are undervalued on the stock market, it may be able to improve its share price (and p/e ratio) by buying shares in the open market. The demand created by the purchase may cause an increase in price and, if these shares are cancelled (as they often are), this means the remaining shareholders own a greater proportion of the company.
- private companies (whose shares have no active market) can take advantage of the company being able to purchase shares. This may be used to buy out shares held by employees (say on retirement) who have received them as part of a profit sharing scheme. Companies may buy out dissenting shareholders, or buy shares from the estate of a deceased shareholder. Companies normally purchase shares in these circumstances when the other shareholders do not wish to purchase any more of the company's shares.

(b) (i)

Non-current assets	30 September 2004 $million	30 September 2003 $million
Property, plant and equipment (note 1)	316	285
Intangible assets (note 2)	100	270

Note 1 Property, plant and equipment	Land and building $million	Plant $million	Total $million
Cost or valuation:			
At 1 October 2003	280	150	430
Additions		50	50
Revaluation (5 – 20)	(15)	nil	(15)
At 30 September 2004	265	200	465
Accumulated depreciation:			
At 1 October 2003	40	105	145
Charge for year	9	35	44
Revaluation	(40)	nil	(40)
At 30 September 2004	9	140	149
Carrying value 30 September 2004	256	60	316

The land and buildings were revalued by an appropriately qualified valuer on an existing use basis on 1 October 2003. They are being depreciated on a straight-line basis over a 25 year life. Plant is depreciated at 20% per annum on cost.

Note 2 Intangible fixed assets:

	Telecommunications license $million	Total $million
Cost at 1 October 2003	300	300
And at 30 September 2004	300	300
Accumulated amortisation 1 October 2003	30	30
Amortisation charge for year	30	30
Impairment charge for year	140	140
At 30 September 2004	200	200
Carrying value 30 September 2004	100	100

After the impairment charge the license will be amortised over its remaining life of eight years on a straight-line basis.

(ii) The usefulness of the above disclosures is:

- users can determine which type of non-current assets a business owns. There is a great deal of difference between owning say land and buildings compared with intangibles. The above figures give an illustration of this; the property has increased in value whereas the licence has fallen dramatically. Another factor relevant to this distinction is that it is usually easier to raise finance using property as security, whereas it can be difficult to raise finance on intangibles due to the volatility of their values.
- it is useful to know whether non-current assets are carried at historical cost or at revalued amount. If a company is using historical cost, it may be that balance sheet values are seriously understated with a consequential effect on depreciation charges.
- information on accumulated depreciation gives a broad indication of the age of the relevant assets. In the case of Advent above, other than the plant acquired during the year, plant is almost fully depreciated. The implication of this, assuming the depreciation policy is appropriate, is that further acquisitions will be required in the near future. This in turn has future cash flow implications.
- it can also be noted that no disposals of plant have occurred, thus the acquisition of plant represents an increase in capacity. This may be an indication of growth.
- the disclosure of the impairment charge as part of the accumulated depreciation disclosures is self-evident. Users can determine that the acquisition of the license appears to have been a financial disaster. Where a non-current asset is carried at historical cost, as in this case, the impairment is included as part of the depreciation rather than as a write down (revaluation) of the cost of the asset.

Part 2 Examination – Paper 2.5 (INT)
Financial Reporting (International Stream) **December 2004 Marking Scheme**

This marking scheme is given as a guide in the context of the suggested answers. Scope is given to markers to award marks for alternative approaches to a question, including relevant comment, and where well-reasoned conclusions are provided. This is particularly the case for written answers where there may be more than one acceptable solution.

			Marks
1	**(a)**	Goodwill of Staybrite:	
		value of shares exchanged	1
		8% loan notes issued	1
		equity shares and share premium	1
		pre acquisition reserves	1
		fair value adjustments	1
		Goodwill of Allbrite:	
		value of shares exchanged	1
		cash paid	1
		equity shares and share premium	1
		pre acquisition reserves	1
		available	**9**
		maximum	**8**
	(b)	Income statement:	
		revenue	2
		cost of sales	4
		operating expenses	2
		interest expense	1
		income from associate	2
		income tax	2
		minority interest	3
		available	**16**
		maximum	**15**
	(c)	dividends	1
		retained profits b/f and c/f	1
		maximum	**2**
		Maximum for question	**25**

			Marks
2	**(a)**	Income statement	
		revenue	2
		cost of sales	6
		operating costs	1
		investment income	1
		interest expense	2
		taxation	2
		available	14
		maximum	**11**
	(b)	Balance sheet	
		development costs	1
		property, plant and equipment	2
		amounts due from construction contract customers	2
		inventory and accounts receivable	1
		investment in finance leases (one for figure 1 for disclosure note)	2
		accrued finance income	1
		bank and trade creditors	1
		accrued finance costs	1
		income tax provision	1
		non-current liabilities	2
		share capital and reserves (including 1 mark for dividend paid)	2
		available	16
		maximum	**14**
		Maximum for question	**25**
3	**(a)**	1 mark per relevant point to a **maximum**	10
	(b)	1 mark per relevant point to a **maximum**	10
	(c)	1 mark per relevant point to a **maximum**	5
		Maximum for question	**25**

				Marks
4	**(a)**		net profit before tax	1
			depreciation	1
			loss on disposal	1
			working capital items	3
			interest paid	1
			income tax paid	1
			capital expenditure	1
			disposal proceeds	1
			equity dividends	1
			financing – equity shares	1
			– loans	1
			decrease in cash	1
			available	**14**
			maximum	**12**
	(b)		up to 3 marks for additional ratios	3
			1 mark per relevant point including 1 mark for format	10
			maximum	**13**
			Maximum for question	**25**
5	**(a)**	**(i)**	ordinary shares	1
			preference shares	1
			capital reserve	2
			retained profits	2
			preference dividend	1
			ordinary dividends	2
			available	**9**
			maximum	**8**
		(ii)	1 mark per relevant point to a **maximum**	**4**
	(b)	**(i)**	property, plant and equipment	
			cost and accumulated depreciation at 1 October 2003	2
			additions	1
			revaluation	1
			depreciation charges	1
			total columns	2
			license stays at cost of $300 million	1
			charge for year	1
			carrying value at 30 September 2004	1
			disclosure note	1
			available	**11**
			maximum	**9**
		(ii)	1 mark per relevant point to a **maximum**	**4**
			Maximum for question	**25**